September 1, 2016

The Honorable Douglas A. Ducey
Governor
State of Arizona
Capitol Tower
1700 West Washington
Phoenix, Arizona 85007

SUBJECT: Fiscal Year 2018 Budget Request

Dear Governor Ducey:

I am submitting the Fiscal Year (FY) 2018 Budget Request for the Arizona Health Care Cost Containment System (AHCCCS). The budget reflects our ongoing commitment to cost effective, quality health care for our 1.8 million members, while limiting costs to the state. It includes the continuation of numerous initiatives and reforms to the Medicaid program, including implementation of your Administrative Simplification initiative, which transitioned the Arizona Department of Health Services' (ADHS) Division of Behavioral Health Services (DBHS) and the programs it manages to AHCCCS, effective July 1, 2016.Your AHCCCS CARE initiative, which will promote member health engagement through a modernized and transformed Medicaid program, is not included in this budget as negotiations are underway with the Centers for Medicare and Medicaid Services (CMS).

As shown in the table below, the request represents an increase of $71.8 million in state General Fund (GF) monies and an increase of $156.1 million in Other Appropriated Funds for a net appropriated funds increase of $227.9 million above FY 2017. The Other Appropriated Funds include an increase of $113.7 million in CHIP Funding related to the reopening of KidsCare and a $42.4 million increase in Prescription Drug Rebate Funding. Of the $1.582 billion Total Fund increase, 4.5% is GF, 20.7% is other sources of State Match, and 74.8% is Federal Funds.

Fund	FY 2017 Approp/Est	FY 2018 Request	Change
Total General Fund	$1,750,941,400	$1,822,754,000	$71,812,600
Other Appropriated Funds	$215,012,700	$371,148,400	$156,135,700
Other Non-Appropriated	$1,041,018,600	$1,460,782,700	$419,764,100
Federal Funds	$9,194,568,600	$10,129,020,600	$934,452,000
Total Fund	**$12,201,541,300**	**$13,783,705,700**	**$1,582,164,400**

Overall, the AHCCCS FY 2018 Total Fund Request, including only AHCCCS appropriations, is $12.338 billion. This represents a $958.5 million increase over the FY 2017 Total Fund appropriation of $11.380 billion, primarily due to caseload and rate increases.

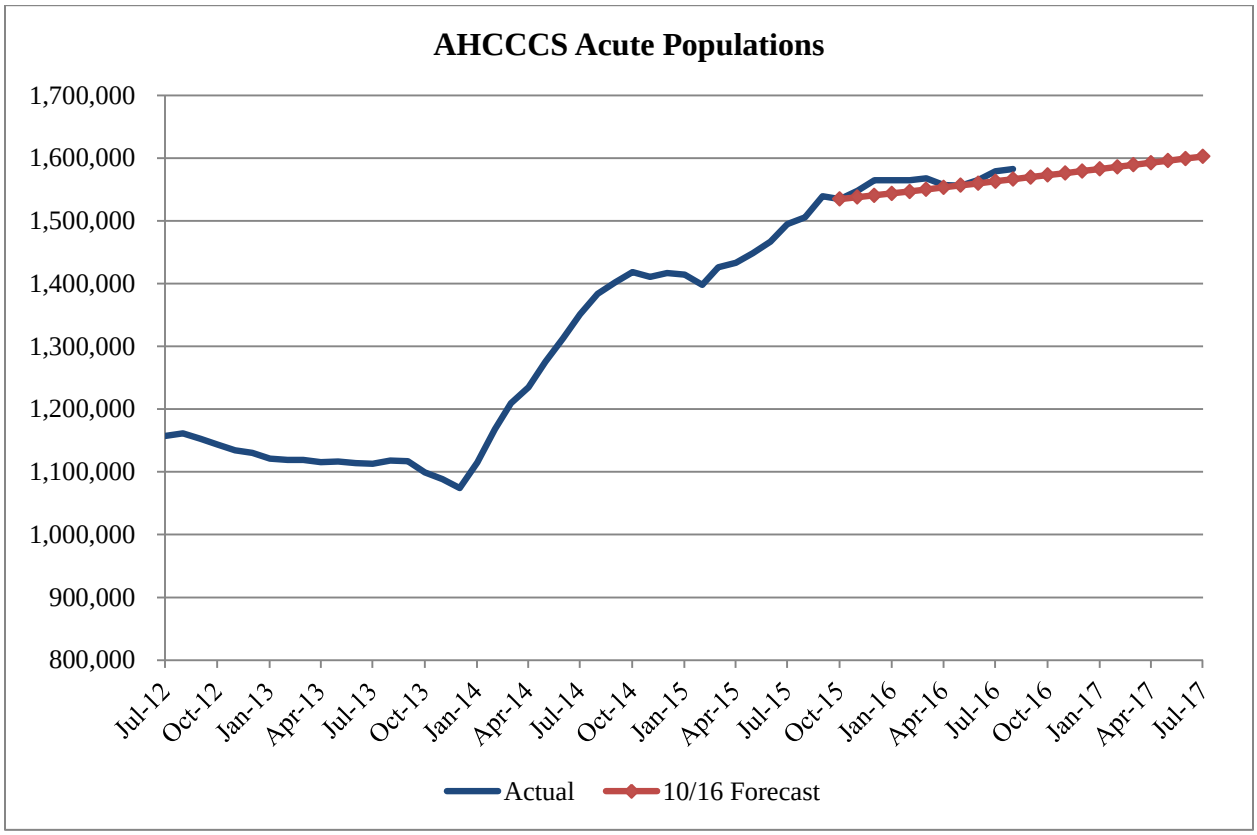
The Agency has identified twenty-four (24) decision packages for your consideration. Seven (7) of the decision packages are caseload, rate, or new mandate-driven Title XIX increases. Of the remaining decision packages, one (1) is a policy proposal to restore a limited benefit; one (1) is a new delivery system payment program; one (1) adjusts prescription drug rebate funding; seven (7) adjust payments to hospitals and nursing facilities; five (5) are administrative increases; and two (2) involve changes to non-appropriated funds only.

Numerous programmatic changes continue to impact the AHCCCS populations. For example, AHCCCS has fully implemented the Modified Adjusted Growth Income (MAGI) standard as well as other federally-required eligibility policy changes. This has resulted in an increased number of individuals enrolled in the program, as well as movement between eligibility categories. In addition, integration efforts for the Seriously Mentally Ill (SMI) and Children's Rehabilitative Services (CRS) populations have shifted members from existing eligibility groups into integrated populations. The population forecasts for FY 2018 continue to reflect the complexity of these changes.

AHCCCS enrollment for FY 2016 was very close to forecast. For the period June 2015 to August 2016, AHCCCS forecasted growth of 120,000 members across all programs, an increase of 7.9%. Actual growth for that period was 136,000 members, an increase of 9.0%, and a difference of only 16,000 individuals. Growth in the Proposition 204 Expansion State Adult (ESA) and the Newly Eligible Adult (NEA) programs was the main driver of this variance, adding 47,000 members, versus the forecast of 31,000 members.

The charts below demonstrate the caseload trends and cumulative growth in the AHCCCS Acute programs as compared to the original forecast from the AHCCCS FY 2017 budget submittal.

The growth rates built into the population forecasts in this budget submittal reflect the assumption that overall growth will continue in early FY 2017, followed by a leveling off to normal population growth for most populations throughout all of FY 2018, but assuming slightly higher growth in adult restoration and expansion categories.



The following are some key items I would like to bring to your attention:

Proposition 204 Expansion State Adults (Adults 0-106% FPL, previously AHCCCS Care "Childless Adults")

- The Expansion State Adult (ESA) population within the Proposition 204 program covers adults up to 106% FPL, equivalent to an annual income of $12,600 for a single adult.

- This program has been the most significantly impacted by Medicaid restoration. During the enrollment freeze, approved by CMS on July 1, 2011, enrollment in this population declined by 156,722 members from 224,492 on June 1, 2011, to 67,770 on December 1, 2013. The freeze was lifted in January 2014 and, as of August 2016, enrollment is now 303,104 members, an increase of 235,334.

- Based on the continued growth this program has experienced, AHCCCS projects June over June growth rates for this population of 5.4% FY 2017 and 5.1% in FY 2018.

- Arizona receives a higher Federal Medical Assistance Percentage (FMAP) for childless adults known as the Expansion State FMAP, which is calculated as a function of both the

regular FMAP and the Newly Eligible Adults FMAP (see Table A below). The regular FMAP for FFY 2018 and forward is estimated.

Table A. Transition FMAP for ESA

Period	FMAP
Jul 16 - Sep 16	90.68%
Oct 16 - Dec 16	90.77%
Jan 17 - Sep 17	89.85%
Oct 17 - Dec 17	89.91%
Jan 18 - Dec 18	91.55%
Jan 19 - Dec 19	93.00%
Jan 20 - Permanent	90.00%

Newly Eligible Adults (106-138% FPL)

- Effective January 2014, the Newly Eligible Adults (NEA) program was established by Laws 2013, First Special Session, Chapter 10. It covers adults not eligible for other AHCCCS programs and with household incomes less than 138% FPL, equivalent to an annual income of $16,394 for a single adult. As of June 2016, NEA enrollment was 79,895.

- AHCCCS believes that program growth has phased in over a longer period and the presentation rate is higher than originally forecasted. Monthly increases of 465 members are projected through the remainder of FY 2017 and all of FY 2018 to reflect sustained growth for the program, resulting in June over June growth of 6.4% in FY 2017 and 6.6% in FY 2018.

- Previously 100% federally funded, the match rate for this program decreases to 95% in CY 2017, 94% in CY 2018, 93% in CY 2019, and 90% in CY 2020 (see Table B below).

Table B. Newly Eligible FMAP for NEA

Period	FMAP
CY 2016	100.00%
CY 2017	95.00%
CY 2018	94.00%
CY 2019	93.00%
CY 2020	90.00%

Hospital Assessment Fund

- Beginning in FY 2014, the Hospital Assessment Fund has been utilized to fund the restoration of the Proposition 204 population, per Laws 2013, First Special Session, Chapter 10, Section 5. It is also the primary source of state match for the NEA program, beginning CY 2017. Hospital Assessment funding is used to supplement other funding provided by the Proposition 204 Protection Account and the Arizona Tobacco Litigation Settlement Fund.

- Due to increases in the ESA and NEA populations and changes in the FMAPs for both groups, AHCCCS projects Hospital Assessment funding of $262.6 million will be required in FY 2017, an increase of $10.3 million over the FY 2017 appropriation. A carry-forward fund balance of $15.8 million from FY 2016 is estimated to be available to help offset current year collections.

- In FY 2018, revenues for the Arizona Tobacco Litigation Settlement Fund are projected to decline by $21 million from the elimination of the Strategic Contribution Fund component of the Master Settlement Agreement (MSA) funding. This funding shortfall generates a corresponding increase to the Hospital Assessment of $21 million.

- Due to continued increases in the ESA and NEA populations, decreases in the NEA FMAP, and the MSA funding shortfall identified above, AHCCCS projects Hospital Assessment funding of $312.0 million will be required in FY 2018, an increase of $59.7 million over the FY 2017. Any carry-forward fund balances will be used to help offset FY 2018 collections and limit increases, however, it is expected that an increase to hospital assessment collections in FY 2018 will also be required.

ACA Newly Eligible Children (M-CHIP)

- Beginning January 1, 2014, the Child Expansion (M-CHIP) population is included as part of the Traditional Acute Care program. It covers children age 6-19 with household incomes from 100% to 138% FPL. As of June 2016, membership was 74,334.

- This population is funded from Arizona's Title XXI Children's Health Insurance Program (CHIP) allotment, subject to availability of funds. The ACA increased the CHIP match rate by 23 percentage points, to an effective rate of 100%, through September 30, 2019. Effective September 1, 2016, Arizona has reopened the KidsCare program, which has allotment priority over M-CHIP. However, based on preliminary guidance from CMS, AHCCCS believes that Arizona will receive sufficient CHIP funds in future years to cover both populations.

Children's Health Insurance Program (CHIP)

- On March 15, 2010, CMS approved an enrollment freeze and cap for KidsCare with an effective date of January 1, 2010. On July 22, 2016, CMS approved a State Plan

Amendment (SPA) to remove the enrollment cap on the program, per Laws 2013, Second Regular Session, Chapter 112. Coverage for new enrollees is effective September 1, 2016.

- AHCCCS has provided a financial analysis to CMS in support of the SPA that estimates KidsCare member growth and associated costs. The population forecast is based on household income and health insurance coverage data from the U.S. Census Bureau's 2014 Annual Social and Economic Supplement (ASEC) of the Current Population Survey (CPS). AHCCCS estimates that 43,155 children in Arizona could be eligible for KidsCare and assumes a presentation rate of 80% with a 9-month phase-in for enrollment. It is estimated that 34,512 members will be enrolled in KidsCare as of June 2017.

- The reopening of KidsCare requires $74.2 million CHIP Funds in FY 2017 and $111.7 million CHIP Funds in FY 2018, both representing significant increases over the FY 2017 appropriation of $2.0 million for services. AHCCCS has also requested CHIP Funds of $214.9 million for FFY 2016 and $349.6 million for FFY 2017 from CMS, in order to fund both M-CHIP and KidsCare. Assuming reauthorization of CHIP and no other changes to federal law, these programs do not require state match until October 2019.

Other Populations Member Month Growth

- The Traditional Acute Base TANF/1931 and SOBRA populations decreased by 1.9% from June 2015 to June 2016, compared to an increase of 8.6% in the same period of the previous year. This included a decrease of 39.6% in the Base TANF population, offset by an increase of 23.7% in SOBRA Children. Children previously categorized as TANF/1931 because they had eligible parents or caretaker relatives are shifting from TANF/1931 Base and TANF/1931 Proposition 204 into the SOBRA Children Category, in accordance with CMS guidance that eligibility should be determined for each individual and not just for the family.

- The Proposition 204 TANF/1931 population increased by 34.6% from June 2015 to June 2016, compared to a decrease of 12.8% in the same period of the previous year. The change reflects the shift of 70,000 members from Base TANF/1931 to Proposition 204 TANF/1931 in October 2015 and the continued realignment of adults across the Base, Proposition 204, ESA, and NEA programs. It also includes net decreases from the movement of children out of Proposition 204 and into SOBRA Children.

- The Supplemental Security Income (SSI) populations (Traditional and Proposition 204 combined) declined by 4.5% from June 2015 to June 2016. This change was associated with members shifting into SMI Integrated programs – SMI Integration was implemented for Maricopa County in April 2014 and state-wide in October 2015. The combined SSI populations are anticipated to increase by 2.5% from June 2016 to June 2017.

- The Arizona Long Term Care System (ALTCS) Elderly and Physically Disabled (EPD) population grew 0.92% in FY 2016 (June over June member month growth). With an increasing Arizona elderly population, AHCCCS is forecasting ALTCS to grow at a rate of 1.23% in FY 2017 and 1.22% in FY 2018.

Capitation Rates

- For Contract Year Ending (CYE) 2017, the Acute Care capitation rates are estimated to increase by 3.12%. Primary drivers of the rate change include:
    - Medical Trend – adjustments to account for utilization of Federally Qualified Health Centers (FQHCs) and Rural Health Centers (RHCs) and other cost factors account for 1.33 percentage points of the increase.
    - Hepatitis C – Anticipated increases in utilization of costly prescription drugs to treat Hepatitis C account for 1.19 percentage points of the increase.
    - Fee-for-Service Rates – Changes related to access-to-care requirements and legislative mandates account for 0.26 percentage points of the increase.
    - Value Based Purchasing – Rate differentials account for 0.13 percentage points of the increase and help to ensure access to care.
    - High Acuity Pediatric Adjustor – Accounts for 0.11 percentage points of the increase.
    - Other Adjustments – Account for 0.10 percentage points of the increase.

- For CYE 2017, the ALTCS EPD capitation rates are estimated to increase by 3.84%. Primary drivers of the rate change include:
    - Medical Trend – Adjustments to account for utilization of services and Home and Community Based Services (HCBS) mix account for 1.98 percentage points of the increase.
    - HCBS Provider Rate Increase of 2.0% – Accounts for 0.73 percentage points of the increase.
    - Nursing Facility Fee Schedule Rate Increase of 1.0% – Accounts for 0.49 percentage points of the increase.
    - Value Based Purchasing – Rate differentials account for 0.34 percentage points of the increase and help to ensure access to care.
    - Restoration of Adult Preventive Dental Services – Benefit restoration limited to $1,000 annually accounts for 0.20 percentage points of the increase.
    - Other Adjustments – Account for 0.10 percentage points of the increase.

- Other notable capitation rate increases utilized in this budget submittal include:
    - 2.9% for the Children's Rehabilitative Services (CRS) program.
    - 0.76% for the ALTCS Developmental Disabilities (DD) program.
    - 0.8% for the Comprehensive Medical and Dental Program (CMDP) program.
    - 1.9% for the Behavioral Health Services programs.

- For CYE 2018, AHCCCS is estimating a 3.0% increase for all programs in order to comply with federal actuarial soundness requirements. AHCCCS actuaries develop rates

based on expected costs and utilization trends. In addition, AHCCCS is required to conduct an access to care analysis of its rates to ensure that sufficient providers are willing to serve AHCCCS members.

- There is significant overlap in the direct care HCBS workforce that serves members enrolled in the ALTCS EPD and DD programs. It is important to understand the potential access to care issues that may result when rates between the two programs diverge too significantly. Therefore, when policymakers increase rates for ALTCS DD HCBS providers, AHCCCS needs to provide a corresponding increase for ALTCS EPD HCBS providers in order maintain access to care for EPD members. AHCCCS respectfully requests that any CYE 2018 rate increases be aligned across the two programs. For context, the estimated cost of a 1.0% EPD HCBS provider rate increase is $4.2 million Total Fund ($1.3 million State Match, including $687,000 GF and $613,000 County Funds).

- As a result of budget constraints and rate reductions, rates for most AHCCCS providers continue to be significantly below where they were six years ago. Table C illustrates how the 2016 rates for select providers compared to 2009.

Table C. Provider Rate Comparison

Provider Type	Rate Change 2009-2016
Hospital Inpatient	(16-20)%
Hospital Outpatient	-8.7%
Nursing Facility (EPD)	2.3%
Behavioral Health Outpatient	-4.6%
Physician	-13.2%
Ambulance	29.5%
NEMT	-11.3%
Ambulatory Surgery Center	5.6%
Dental	-12.5%
FQHC	37.0%

Federal law requires that AHCCCS provide "that payments are consistent with efficiency, economy, and quality of care and are sufficient to enlist enough providers so that care and services are available under the plans at least to the extent that such care and services are available to the general population." On an annual basis, AHCCCS evaluates member access to care to ensure it meets this requirement. In looking forward to the coming years, AHCCCS remains concerned about its provider network. If provider rates are reduced below their current levels, the remaining provider network may not be sufficient to meet this federal requirement. In addition, AHCCCS expects it may need to make incremental, upward adjustments in critical areas to ensure continued access to care.

Negative impacts to provider networks would jeopardize the system of managed care that AHCCCS has leveraged to deliver high quality, cost effective services to its members.

Medicare Part B Premium Rate Increase

- AHCCCS pays Medicare premiums for dual eligible members enrolled in the Traditional, Proposition 204, and ALTCS EPD programs. The 2016 Annual Report of the Boards of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds has recommended an increase to Medicare Part B premiums of 22.33% effective January 1, 2017. Therefore, AHCCCS has assumed that Medicare Part B premiums increase by 22.33% in CY 2017 and by 5.11% increase in CY 2018. In CY 2016, an increase of 51.86% was similarly recommended, but the Balanced Budget Act of 2015 reduced the effective increase to 16.11%. As a change from baseline estimates, the anticipated CY 2017 increase generates an increased cost of $25.4 million Total Fund ($7 million State Match) in FY 2017 and $53.5 million Total Fund ($14.9 million State Match) in FY 2018.

Prescription Drug Rebates

The ACA made payments under the Medicaid Drug Rebate program available to state Medicaid programs for drugs purchased through Medicaid Managed Care Organizations (MCOs). These rebates are shared between the states and the federal government. AHCCCS is projecting total fund collections of $583.9 million and $588.6 million in FY 2017 and FY 2018, respectively. The beginning state fund balance in FY17 of $52.8 million is projected to grow to $63.1 million by the end of FY17. In FY18, AHCCCS proposes to use $42.2 million of the available balance to offset an equivalent amount of General Fund expenditures on a one-time basis. This would leave a FY18 ending balance of $31.5 million (See Table D below). Due to fluctuations in amounts and timing of collections, AHCCCS recommends preserving a carry-forward balance for this fund in order to ensure adequate cash flow.

Table D. Prescription Drug Rebate Fund – State Fund Balance

FY16 Fund Balance	$52,817,900
FY17 Collections (Est.)	124,025,200
FY17 Spend Plan (Approp.)	113,778,900
FY17 Ending Balance	$63,064,200
FY17 Fund Balance (Est.)	63,064,200
FY18 Collections (Est.)	124,675,800
FY18 Spend Plan (Proposed)	156,207,900
FY18 Ending Balance	$31,532,100

Hospital Reimbursement Programs

- Laws 2013, First Special Session, Chapter 10 granted AHCCCS the authority to use monies from political subdivisions to draw federal matching dollars to continue the Safety Net Care Pool SNCP) for Phoenix Children's Hospital (PCH). AHCCCS' current 1115 Waiver authorizes SNCP funding for PCH through December 31, 2016 with a maximum annual amount of $110 million. AHCCCS and PCH intend to request federal approval for additional funding in future years, with a phase-down each year. Based on this phase-down model, AHCCCS requests FY18 funding of $75 million Total Fund, a decrease of $62 million from the FY17 appropriation. No General Fund monies are required for these payments. Current language in the feed bill allows AHCCCS to increase the appropriation for these payments if funding from political subdivisions is available and federal matching funds are approved by CMS. AHCCCS requests that this language be continued in FY 2018.

- The ACA mandated reductions to the Disproportionate Share Hospital (DSH) allotments beginning in FFY 2014. However, the Protecting Access to Medicare Act delayed the DSH reductions until FFY 2017 and the Medicare Access and CHIP Reauthorization Act again delayed the reductions until FFY 2018. Under current law, the FFY 2018 aggregate national reduction will be $2.0 billion on a base of $12.1 billion, or a 16.5% decrease. Therefore, AHCCCS projects that its total available DSH allotment will be $111.7 million in FFY 2017 and will be reduced by 16.5% or $18.5 million in FFY 2018.

    - Appropriated DSH amounts of $4.2 million Total Fund ($0 GF) for Maricopa Integrated Health Systems (MIHS) and $884,800 Total Fund ($272,000 GF) for Private Hospitals are anticipated to remain constant. The GF portion of the private hospital appropriation is reduced by $2,600 to $269,600 due to change in FMAP for FFY 2018.

    - Based on the anticipated reduction to the DSH allotment, AHCCCS does not believe that federal funding will be available to fund the Pool 5 Locally Funded hospital payments in FY 2018, resulting in a decrease of $19.9 million Total Fund, including $13.8 million federal share. AHCCCS requests the current language in the feed bill that allows AHCCCS to increase this appropriation if additional funding is available be continued in FY 2018.

    - Laws 2016, Second Regular Session, Chapter 122, Section 18 includes $113.8 million Total Fund ($35.0 million State Match provided by Certified Public Expenditure) for MIHS. Due to the reduction in DSH allotment, AHCCCS estimates the maximum amount available for MIHS in FY 2018 will be $102.9 million Total Fund ($30.1 million State Match). This change reduces the federal match available for deposit in the General Fund from $74.6 million in FY 2017 to $68.6 million in FY 2018.

- While this budget request includes the payment assumptions outlined above, the allocation of federal DSH allotment funding is a policy decision.

- The national DSH allotment will continue to be reduced by an additional $1 billion each year until FFY 2024, at which point a cumulative reduction of $8 billion will be in effect for FFY 2024 and FFY 2025. CMS has not yet provided guidance on the methodology that will be used in determining state specific reductions, but AHCCCS is estimating that Arizona will experience proportional reductions.

- Laws 2006, Chapter 331, Section 8 and Laws 2007, Chapter 263, Section 9 required AHCCCS to expand the Graduate Medical Education (GME) program, which uses voluntary contributions from local political subdivisions as State Match to make payments to hospitals. Since the availability of these local funds, Arizona has seen significant increases in both GME funding (an increase from $33 million in 2007 to an estimated $266 million in 2016) and total Arizona GME resident slots (from 1,262 in 2007 to 1,806 in 2016). In FY 2018, AHCCCS proposes to increase the GME appropriation by $102.7 million Total Fund ($31.7 million State Match) over the FY 2017 appropriation. Increases to GME payments are anticipated as a result of a rule change which modifies the method of allocating funds for indirect GME costs to permit payments that will cover a greater portion of the costs reported by GME programs. AHCCCS requests the current language in the feed bill that allows AHCCCS to increase this appropriation if additional funding is available be continued in FY 2018.

ACA Health Insurer Fee

- The ACA includes a $8.0 billion health insurer fee (HIF) on the health insurance industry beginning in 2014, indexed to the rate of premium growth each year. In order to maintain actuarially soundness, Medicaid managed care capitation rates are increased to offset the tax liability from the fee. In FY 2017, AHCCCS projects a cost of $103.1 million Total Fund ($25.7 million GF) for the CY 2016 fee year. The Consolidated Appropriations Act of 2016 instituted a moratorium on the HIF for the CY 2017 fee year. Therefore, AHCCCS is estimating one-time cost savings of $126.8 million ($30.3 million GF) to occur in FY 2018. In FY 2019, AHCCCS projects a cost of $130.5 million Total Fund ($31.4 million GF) from the HIF, which will be back in effect on an ongoing basis.

Benefit Restoration

- In response to the significant fiscal challenges facing the State during the Great Recession, AHCCCS implemented several changes to the adult benefit package in 2010 and 2011. The benefits eliminated or limited were all considered optional services under federal law and only impacted adults 21 years and older. These changes include elimination of: most dental care, podiatrist services, insulin pumps, percussive vests, bone-anchored hearing aids, cochlear implants, orthotics, specific transplants, and well

exams. Limitations were placed on physical therapy days, hospital inpatient days, and respite care hours.

- Most of these benefits have been restored through legislative action, including: insulin pups, specified transplants, well exams, orthotics, podiatrist services, and ALTCS preventive dental.

- In FY 2018, AHCCCS respectfully requests the reinstatement of emergency dental services for adults in the Acute, ALTCS EPD, and ALTCS DD programs. As a result of lack of access to emergency dental services, the AHCCCS adult population is at risk for experiencing negative health outcomes caused by tooth decay and dental infections, which generate additional costs and risks to the member. This budget proposes reinstatement of the benefit that was eliminated September 30, 2010 at an estimated per member per month cost of $1.90, to be implemented October 1, 2017. The estimated FY 2018 cost for the Acute and ALTCS EPD population is $14.5 million Total Fund ($1.5 million GF). The Arizona Department of Economic Security's (ADES) ALTCS DD cost impact is $216,500 Total Fund ($66,000 GF).

Delivery System Reform Incentive Payments

- In July 2016, AHCCCS submitted a Delivery System Reform Incentive Payment (DSRIP) application to the Centers for Medicare and Medicaid Services (CMS) to request funding for focused, time-limited projects aimed at building necessary infrastructure to improve multi-agency, multi-provider care delivery for the following populations:
    - Children with behavioral health needs, including children with or at risk for Autism Spectrum Disorder (ASD), and children engaged in the child welfare system.
    - Adults with behavioral health needs.
    - Individuals transitioning from incarceration who are AHCCCS-eligible.

- These projects will improve care coordination and care management for AHCCCS members by providing infrastructure investments and incentives for providers to collaborate in the development of shared clinical and administrative protocols. They will enable patient care management across provider systems and networks, specifically integrating and linking the provision of physical health and behavioral health services.

- CMS will provide federal Medicaid Title XIX funds to support DSRIP and state matching funds will be provided by Intergovernmental Transfers (IGTs) and Designated State Health Programs (DSHPs) and expended from the DSRIP Fund established by Laws 2016, Second Regular Session, Chapter 122.

- AHCCCS proposes funding of $336.0 million Total Fund ($102.6 million DSRIP Fund) in FY 2018. The DSRIP Fund and associated federal expenditures are continuously appropriated. There is no General Fund impact from this initiative.

Behavioral Health Services

- Effective July 1, 2016 the ADHS's DBHS and the programs it managed formally transitioned to AHCCCS, in accordance with Laws 2015, First Regular Session, Chapters 19 and 195 as part of the Administrative Simplification initiative.

- This request reflects the realignment of funding for integrated capitation payments between Acute and Behavioral Health appropriation line items. In FY 2016, when the physical health and behavioral health portions of capitation were separately appropriated to ADHS and AHCCCS, respectively, integrated capitation payments were manually split between the agencies. In FY 2017, funding for all integrated payments has been appropriated to AHCCCS and will be paid from single appropriations. Payments to Regional Behavioral Health Authorities (RBHAs) for SMI Integrated care will be made from the Behavioral Health appropriations and payments to Acute Managed Care Organizations (MCOs) for General Mental Health and Substance Abuse (GMH/SA) dual eligibles will be made from the Acute appropriations.

- In FY 2018, AHCCCS requests the separate Behavioral Health appropriations for Traditional, CMDP, Proposition 204, and NEA be consolidated into the corresponding Traditional, Proposition 204, and NEA acute line items. As AHCCCS moves forward with program integration and enhanced coordination of physical and behavioral health services it is important to have a single, consolidated appropriation for each population in order to make payments to different contractors for different categories of service from a single funding source. This Administrative Simplification provides operational flexibility for AHCCCS to make integrated payments with integrated funding and allows AHCCCS to fulfill the goals of the Administrative Simplification initiative by reducing the need for line item transfers between discrete line items. The change is consistent with the consolidation of capitation, reinsurance, fee-for-service, and Medicare premium line items into the Traditional and Proposition 204 line items in FY 2012. This change is also consistent with the appropriation for the fully integrated ALTCS EPD program, which includes funding for both physical health and behavioral health services. AHCCCS understands the importance of continuing to report discrete expenditures for behavioral health and SMI integrated contractors, in order to demonstrate that it maintains its commitment to and focus on behavioral health services for its members, regardless of the program or contractor providing those services. AHCCCS will provide this separate reporting, which will more accurately reflect the level of behavioral health services for all populations, but requests a single appropriation for all costs associated with each population.

Other Issues

- Laws 2012, Second Regular Session, Chapter 213 amended Title 36, Chapter 29 by adding Article 6, establishing an assessment on nursing facilities within the state beginning October 1, 2012. Laws 2015, First Regular Session, Chapter 39 continued the

assessment through September 30, 2023. In accordance with requests from nursing facility stakeholders, AHCCCS has proposed an updated rule to increase the assessment amounts effective January 1, 2017. High volume providers would increase from $1.40 to $1.80 per day, and all other non-exempt providers would increase from $10.50 to $15.63. Half of this increase impacts the FY 2017 rebase and the fully annualized impact will be realized in FY 2018, requiring an increase of $36.1 million Total Fund ($10.8 million State Match) over the FY 2017 appropriation. AHCCCS requests the footnote language allowing AHCCCS to increase the appropriation for payments in excess of the published appropriation be continued in FY 2018.

- AHCCCS has five critical administration issues for your consideration:

    - Prescription Drug Review Initiative – Your leadership in creating the Arizona Substance Abuse Task Force has established a coalition of experts focused on combatting the growing epidemic of opioid addiction in Arizona, which ranks sixth in the nation for opioid abuse. AHCCCS is uniquely positioned to respond to these issues by utilizing enhanced data analytics to identify opportunities for member interventions through health plans and providers and coordinating between medical management and quality of care activities overseen by the Chief Medical Officer (CMO) and the Office of Inspector General (OIG) to address cases of waste, fraud, and abuse. AHCCCS proposes to implement a multi-disciplinary, agency-wide Prescription Drug Review Initiative to further these goals and requests administrative resources of $441,600 Total Fund ($220,900 GF) for five dedicated positions to support the effort.

    - Arizona Department of Administration (ADOA) Data Center – Under its Interagency Services Agreement (ISA) with ADOA, AHCCCS is charged for its usage of mainframe computing services. In the past years, usage has significantly increased due to enrollment growth, more users, and additional programs. AHCCCS requests $10.0 million Total Fund ($3.3 million GF) to address the FY 2018 ADOA Data Center structure shortfall, which has operated at a deficit since FY 2003.

    - Administrative Base Modification – When administrative funding was transferred to AHCCCS from ADHS/DBHS, funding for Proposition 204 Behavioral Health Administration was established as a separate appropriation and not combined into the existing AHCCCS Proposition 204 Administration line item. AHCCCS does not allocate administrative costs to Behavioral Health, as distinguished from other services, and so requests that $5.8 million Total Fund ($1.8 million GF) be transferred into the existing Proposition 204 administrative line item and the Behavioral Health line item be eliminated as a base modification with no impact to any fund.

    - ADES Federal Authority Shortfall – AHCCCS has an ISA with ADES to conduct Medicaid and CHIP eligibility determinations on its behalf with funding provided

by the DES Eligibility and DES Proposition 204 Eligibility line items in the AHCCCS budget. In FY 2018, on behalf of ADES, AHCCCS requests authority increases of $40 million Federal Medicaid Authority and $4 million CHIP Fund to address a structural authority shortfall and the reopening of KidsCare, which will generate CHIP administrative costs. There is no state funding impact associated with this request.

- Indian Advisory Council (IAC) – In order to fulfill its statutory duties, the IAC requests an additional $104,400 Total Fund ($52,200 GF) to provide funding that will assist in meeting strategic objectives and improving health care outcomes for Arizona Tribal members.

- AHCCCS assumes the regular FMAP will increase from 69.24% in FFY 2017 to 69.53% in FFY 2018 based on the projection published by the Federal Funds Information for States (FFIS) in Issue Brief 16-24 (March 25, 2016).

Waiver Update

- Since the inception of the AHCCCS program, Arizona has operated under a comprehensive 1115 waiver that provides significant programmatic flexibility. The current waiver is set to expire on September 30, 2016 and AHCCCS is in the process of negotiating approval from CMS for a new waiver extension. In its application to CMS, AHCCCS has proposed your vision for a modernized and transformative Medicaid program, called AHCCCS Choice, Accountability, Responsibility, Engagement (CARE). AHCCCS looks forward to greater flexibility to increase the engagement of members, make Medicaid a temporary option, and promote quality care at affordable prices.

AHCCCS will re-evaluate this budget submittal and may refine it based on additional expenditure data, caseload trends, CMS decisions, or legal judgments.

Sincerely,

FORTB

Thomas J. Betlach
Director